News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Flash US Composite PMI™

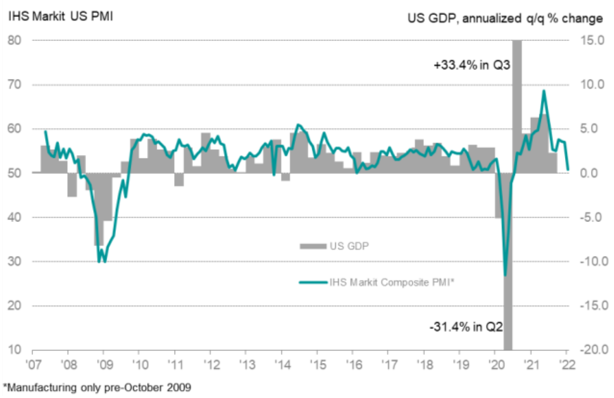
US output growth slows to 18-month low as Omicron wave exacerbates supply delays and labor shortages

Key findings:

- Flash US Composite Output Index at 50.8 (57.0 in December). 18-month low.
- Flash US Services Business Activity Index at 50.9 (57.6 in December). 18-month low.
- Flash US Manufacturing PMI at 55.0 (57.7 in December). 15-month low.
- Flash US Manufacturing Output Index at 50.3 (53.8 in December). 19-month low.

Data collected January 10-21

IHS Markit Composite PMI and US GDP



Sources: IHS Markit, US Bureau of Economic Analysis

US private sector firms signalled a marked slowdown in growth at the start of 2022 amid softer demand conditions, worsening supply chain disruptions and labor shortages linked to the Omicron wave.

Adjusted for seasonal factors, the **IHS Markit Flash US Composite PMI Output Index** posted 50.8 in January, down notably from 57.0 in December. The resulting upturn in activity was only marginal, and the slowest since July 2020.

The slowdown in output growth was broad-based, with both manufacturing and service sector firms reporting near-stalled output as the steep spike in virus cases associated with the Omicron wave meant ongoing supply issues and labor shortages were exacerbated by renewed pandemic related containment measures.

Although output was constricted by the Omicron wave, demand growth remained more resilient. New orders for goods and services continued to rise strongly, albeit registering the weakest rise since December 2020. The upturn in new orders was supported by the service sector, as manufacturers stated that new sales growth was often held back by weaker demand from clients amid price rises and efforts to work through inventories. Renewed restrictions in key export markets and raw material shortages also led to a softer upturn in new export orders.

Meanwhile, input price inflation softened again in January. The rate of increase in costs was the slowest since last March, albeit sharper than any prior period in the series history. Firms noted that prices were driven up by greater supplier costs and upward pressure on wages. The pace of selling price inflation for goods and services picked up, and was the third-fastest on record (since October 2009) as companies sought to pass higher costs on to clients.

Despite challenging labor market conditions, firms were able to expand their workforce numbers in January. The rise in employment was only modest, however, with backlogs of work increasing solidly again. That said, the upturn in outstanding business was the slowest since March 2021 as some firms noted efforts to clear work-in-hand.

Although the degree of business confidence in the year ahead was the second-highest since last June, optimism waned. Concerns regarding further price rises and client responses to inflationary pressures weighed on expectations.

IHS Markit Flash US Services PMI™

The seasonally adjusted **IHS Markit Flash US Services PMI™ Business Activity Index** fell to 50.9 in January, down from 57.6 in December. The expansion in business activity was only marginal overall, slowing notably from the previous survey period. Labor shortages, employee absences and the Omicron wave reportedly weighed on growth.

Demand conditions held relatively firm, however, as new business rose strongly. The rate of growth was the softest for four months, but was broadly in line with the series average. New business from abroad expanded for the third month running.

Input cost inflation slowed in January. The pace of increase was the joint-softest for almost a year despite being marked overall. Nonetheless, the uptick in costs was linked to supplier price hikes and soaring wage bills. Relatively firm demand conditions allowed companies to pass-through some input cost increases, as the rate of charge inflation accelerated to a series high.

Service providers increased their staffing numbers at a modest pace in an effort to relieve pressure on capacity. Although solid, the pace of growth in backlogs of work was the slowest since May 2021.

Business confidence was dampened in January and slipped to a three-month low amid concerns regarding the impact of inflation and the pandemic on demand over the coming months.

IHS Markit Flash US Manufacturing PMI™

The health of the manufacturing sector improved to the least marked extent since October 2020 in January, as highlighted by the **IHS Markit Flash US Manufacturing *Purchasing Managers' Index*™ (*PMI*™)**[1] posting at 55.0, down from 57.7 in December. Again, the headline figure was supported by a greater deterioration in vendor performance which would ordinarily be a signal of improving operating conditions. That said, supply chain issues abounded, which further hampered production and weighed on client demand.

Output levels were broadly unchanged from those seen in December, as new order growth slowed to the softest rate since July 2020. Alongside labor and material shortages stymieing the upturn, firms noted that customers were keen to reduce spending amid sharp hikes in costs.

The rate of cost inflation eased again in January and was the slowest since May 2021. Although still marked overall, there were signs of pressure waning. Similarly, the pace of charge inflation softened and was the least marked since April 2021.

In line with softer demand conditions, firms signalled slower upturns in input buying and stock building. Rates of growth were the slowest since February and March 2021, respectively.

Labor shortages, a high turnover of staff and reports of the non-replacement of voluntary leavers led to the first decline in manufacturing employment since July 2020. Despite backlogs of work rising again, the expansion was the softest since last February.

Finally, manufacturers bucked the trend and signalled stronger optimism regarding future output in January. Confidence was the highest since November 2020 amid hopes of stable supply flows and a reduction in the impact of COVID-19.

Comment

Commenting on the PMI data, **Chris Williamson, Chief Business Economist** at IHS Markit, said:

"Soaring virus cases have brought the US economy to a near standstill at the start of the year, with businesses disrupted by worsening supply chain delays and staff shortages, with new restrictions to control the spread of Omicron adding to firms' headwinds.

"However, output has been affected by Omicron much more than demand, with robust growth of new business inflows hinting that growth will pick up again once restrictions are relaxed. Furthermore, although supply chain delays continued to prove a persistent drag on the pace of economic growth, linked to port congestion and shipping shortages, the overall rate of supply chain deterioration has eased compared to that seen throughout much of the second half of last year. This has in turn helped lift manufacturing optimism about the year ahead to the highest for over a year, and has also helped bring the rate of raw material price inflation down sharply. Thus, despite the survey signalling a disappointing start to the year, there are some encouraging signals for the near-term outlook "

-Ends-

[1] Please note that IHS Markit's PMI data, flash and final, are derived from information collected by IHS Markit from a different panel of companies to those that participate in the ISM surveys. No information from the ISM survey is used in the production of IHS Markit's PMI.

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Note to Editors:

Final January data are published on February 1 2022 for manufacturing and February 3 2022 for services and composite indicators.

The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"

The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?".

The US Services *PMI™* (*Purchasing Managers' Index™*) is produced by IHS Markit and is based on original survey data collected from a representative panel of over 400 companies based in the US service sector. IHS Markit began collecting monthly PMI data in the US service sector in October 2009. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final *PMI* data.

The IHS Markit US Services PMI complements the IHS Markit US Manufacturing PMI and enables the production of the IHS Markit US Composite PMI which tracks business trends across both the manufacturing and service sectors, based on original survey data collected from a representative panel of over 1,000 companies.

IHS Markit began collecting monthly *Purchasing Managers' Index™ (PMI™)* data in the U.S. in April 2004, initially from a panel of manufacturers in the US electronics goods producing sector. In May 2007, IHS Markit's US PMI research was extended out to cover producers of metal goods. In October 2009, IHS Markit's US Manufacturing PMI survey panel was extended further to cover all areas of US manufacturing activity. Back data for IHS Markit's US Manufacturing PMI between May 2007 and September 2009 are an aggregation of data collected from producers of electronic goods and metal goods producers, while data from October 2009 are based on data collected from a panel representing the entire US manufacturing economy. IHS Markit's total US Manufacturing PMI survey panel comprises over 600 companies.

The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to US GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indictors the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About PMI
Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to https://ihsmarkit.com/products/pmi.html.